2001 FARM BILL

Information Pack

Prepared by:

House Committee on Agriculture

August 2001

The Farm Security Act of 2001

H.R. 2646

- H.R. 2646 is a product of more than two years work by the House Agriculture Committee, which included numerous field hearings across the country where real farmers and ranchers shared their perspectives on what was and was not working with current farm policy.

- Over the past four years Congress has provided over $30 billion in needed ad hoc assistance for farmers. H.R. 2646 is a better way to address the needs of rural America that will allow more disciplined budgeting by the federal government and more reliable assistance for farmers and ranchers.

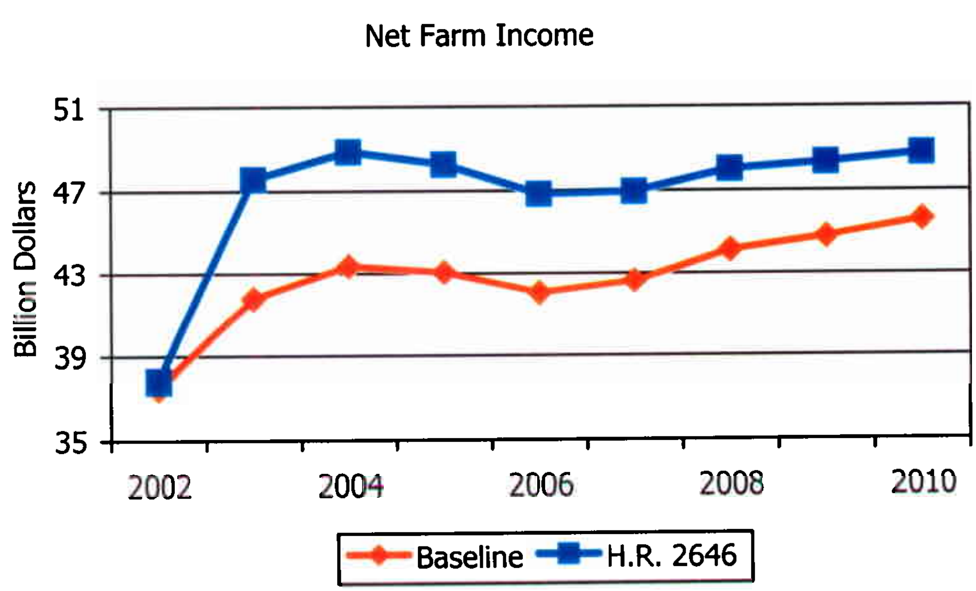
- H.R. 2646 is a balanced bill that addresses critical farm program needs and also makes significant investments in and improvements to our conservation, rural development, export promotion, research, nutrition and other programs.

- H.R. 2646 maintains planting flexibility provisions of the current farm bill and adds a target-price based counter-cyclical program to help farmers weather adverse market conditions, as most producers, and farm groups have called for in the next farm bill.

- The Farm Security Act provides a 3-piece safety net, retaining the fixed decoupled payments as well as the marketing loan program, and adding a counter cyclical payment to provide consistent and reliable support that will allow farmers and their lenders to plan for the future.

- H.R. 2646 is fully compliant with the budget approved out by Congress earlier this year, providing $73.5 billion in additional spending over 10 years.

- H.R. 2646 is designed to meet our WTO obligations.



Additional payments under H.R. 2646 increase farm income by an average of **$4.5 billion** above baseline levels

Commodity Program -- 3-Piece Safety Net:

- **Marketing Loan Provisions:** H.R. 2646 would continue the current marketing loan program at current loan rates for all crops except soybeans and sorghum. All production would be eligible for the marketing loan.
  - The $5.26/bu soybean loan rate was set deliberately high in the '96 farm bill to compensate for the fact that soybean growers did not receive AMTA payments. H.R. 2646 brings soybeans into the 3-piece program with other commodities, and lowers the loan rate to $4.92/bu, a level that is considered to be equitable to the loan rates for other commodities.
  - Sorghum is a feed grain that trades on the same market as corn, but has a lower loan rate that has resulted in decreased plantings of this crop. H.R. 2646 raises the sorghum loan rate to a level equivalent to corn.

- **Fixed Decoupled Payments:** Amount of the fixed, decoupled payment will be equal to the product of the payment rate, the payment acres, and the payment yield. Fixed decoupled payments will be paid no later than Sept. 30 of fiscal years 2002 through 2011, in conjunction with the corresponding crop year. A producer may receive up to 50 percent of the fixed decoupled payment in advance anytime on or after Dec. 1 of a fiscal year.

- **Counter-Cyclical Payments:** Counter-cyclical payments will be made whenever the effective price for a covered commodity is less than the target price. The effective price is equal to the sum of **(1)** the **higher** of the national average market price during the 12-month marketing year for the commodity or the national average loan rate, **and (2)** the payment rate for fixed decoupled payments for the commodity. The payment rate for counter-cyclical payments is equal to the difference between the target price and the effective price for the commodity. The payment amount for counter-cyclical payments is the product of the payment rate, the payment acres, and the payment yield. If for example, market prices are above target prices (as they would have been in 1996), the producer would not receive a payment and there would be no government expenditures.

Loan Rates, Fixed Payment Rates and Target Prices

		Loan Rates		Fixed Rates		Target Prices	
Crop	**$/Unit**	**2001**	***H.R. 2646***	**2002 AMTA**	***H.R. 2646***	**1995**	***H.R. 2646***
Wheat	Bu.	2.58	***2.58***	0.46	***0.53***	4.00	***4.04***
Corn	Bu.	1.89	***1.89***	0.26	***0.30***	2.75	***2.78***
Sorghum	Bu.	1.71	***1.89***	0.31	***0.36***	2.61	***2.64***
Barley	Bu.	1.65#	***1.65#***	0.19	***0.25***	2.36	***2.39***
Oats	Bu.	1.21#	***1.21#***	0.02	***0.025***	1.45	***1.47***
Upland Cotton	Lb.	0.5192	***0.5192***	0.0554	***0.0667***	0.729	***0.736***
Rice	Cwt.	6.5	***6.5***	2.04	***2.35***	10.71	***10.82***
Soybeans	Bu.	5.26	***4.92***	None	***0.42***	None	***5.86***
Minor Oilseeds	Lb.	0.093	***0.087***	None	***0.0074***	None	***0.1036***

Set by formula taking into account the feed value relative to corn.

Example Story Problems:

Scenario # 1

Farmer JD has 1000 acres of tillable land on his farm, all of which are corn base. In year 2002 he plants all of those acres to corn. Let's assume that the market average price for the year is $2.15/bu, his actual yield is 137.1 bu/acre and his FSA program yield is 102.6 bu/acre. It is also important to remember that his payment acres are 85% of his base acres. Under The Farm Security Act of 2001, what would his gross returns be?

Answer:
First, lets figure his **market return**:
1000 acres harvested **x** 137.1 bushels **x** $2.15 = **$294,765** Farmer JD would earn from the market place.

Second, lets figure his **fixed decoupled payment**: Remember, JD only gets paid on 85% of his base acres. The formula used is payment acres **x** program yield **x** fixed payment rate. Plugging in the numbers, you get 850 acres **x** 102.6 **x** $.30 = **$26,163** Farmer JD will get in the form of fixed decoupled payments.

Third, lets figure JD's **counter-cyclical payment**. The counter-cyclical payment is triggered since the effective price is less than corn's target price of $2.78. Again, JD only gets paid on 85% of his base acres. This is a bit more complicated. The formula used is: payment acres **x** program yield **x** calculated payment rate. How do we figure the payment rate? The payment rate is figured by taking the market average price of $2.15 (since this is higher than the loan rate of $1.89) and adding the fixed payment rate of $.30 which gives you $2.45. Subtract that from the target price of $2.78 and you get a $.33 calculated payment rate. Now lets put this all together: 850 acres x 102.6 x $.33 = **$28,779** Farmer JD will get in the form of counter-cyclical assistance.

Scenario #2

This time lets assume that Farmer JD still plants 1000 acres of corn base, has an average harvested yield of 137.1 bu/acre but the market average price is $2.98/bu. Under The Farm Security Act of 2001, what would his gross returns be now?

Answer:
Market return:
1000 acres x 137.1 x $2.98 = **$408,558** Farmer JD would get from the market place.

Fixed decoupled payment. JD's fixed decoupled payment would stay the same.

Counter-cyclical payment: Since the market average price of $2.98 is above the target price of $2.78, no counter-cyclical payment would be triggered. It is important to understand that the market average price could be a bit below the target price and still not trigger a payment. That is because the effective price has to be higher. For instance, if the market average price was $2.70, and you add the $.30 fixed payment rate which makes the effective price $3.00, which is above the target price.

Other Details:

- **Base Update**: Producers may choose base acres reflecting the four-year average of acreage planted or prevented from being planted to the commodity for harvest, grazing, haying, silage, and other similar purposes during the 1998 through 2001 crop years. Alternatively, producers may choose base acres reflecting contract acreage that would otherwise be used to calculate the fiscal year 2002 AMTA payments.

- **Payment yield:** Producers maintain payment yield in effect for the 2002 crop. If no payment yield is available, an appropriate yield will be established taking into account yields applicable to the commodity for similar farms in the area.

- **For Soybeans and other Oilseeds:** Payment yields for a farm are established by determining the average yield from 1998 through 2001, excluding years where the acreage planted to the crop was zero. If a farm would have satisfied disaster eligibility requirements under the FY 1999 Agriculture Appropriations bill in any of the 1998 through 2001 crop years, the Ag Secretary will assign a yield to the farm equal to 65 percent of the county yield for that year in determining the 4-year average. The 4-year average is then reduced to reflect the increase in yields that occurred between 1981-1985 and 1998-2001.

- **Payment limits** are set at $50,000 for fixed decoupled payments, $75,000 for counter-cyclical payments and $150,000 for marketing loan gains and loan deficiency payments.

OTHER COMMODITIES

Peanuts: H.R. 2646 recognizes changes occurring in the peanut market and makes a historic market-oriented change to the peanut program that will help protect our domestic peanut industry for the future. In addition to the increased political pressure, the program is now facing increased burdens from imports as tariff protections decline under NAFTA and GATT. H.R. 2646 makes the peanut program similar to the program of other program crops.

- H.R. 2646 terminates the marketing quota program and compensates the quota holders for the loss of the quota asset value at $0.10 per pound per year for five years. This equates to a $200 per ton payment for each of the years 2002-06.

- H.R. 2646 provides a marketing loan at $350 per ton. In addition producers with peanut base would receive a fixed decoupled payment at $36 per ton and counter cyclical program with a target price of $480 per ton

- Peanut acres and payment yields will be based upon actual production history along with actual planted and prevented planted acres for the period 1998 through 2001.

- H.R. 2646 protects quota owners as well as improving the safety net for other peanut producers. In addition, producers will no longer have to be out $200-$240 to lease quota. For example, a peanut producer with 50 acres producing 1 ton of quota peanuts per acre under the current program and having an identical base and yield under the new program would compare as follows:

<u>Current program</u>: **$610 per acre**

<u>New program</u>:	Loan rate of $350 X 50 acres X 1 ton per acre	= $17,500
	$480 target - $350 marketing loan = $130	
	$130 X 50 acres X 1 ton X 85%	= <u>$ 5,525</u>
		$23,025

$23,025 divided by 50 tons = $460.50 plus $200 per ton quota buyout = **$660.50 per ton**

Dairy: H.R. 2646 balances interests of dairy producers from all regions of the country and has been endorsed by all the nation's largest dairy producer and processor organizations.

- H.R. 2646 extends the milk price support program at $9.90 per cwt. through 2011 providing a continuation of the safety net program that has served dairy producers for more than 50 years.

- H.R. 2646 assists dairy exports through the Dairy Export Incentive Program (DEIP). This program is used to help U.S. dairy products meet competition from subsidizing countries, especially the European Union. Products eligible for DEIP are milk powders, butterfat and cheese.

- H.R. 2646 continues the highly successful Fluid Milk Processor Promotion and Education Program and provides authority for the separate Dairy Promotion and Research Program to enable the Dairy Board to assess importers of dairy products in the same manner as domestic producers.

Sugar: Sugar producers have not been immune to the problem of low prices. Wholesale-refined sugar prices have been running at, or near, 22-year lows for most of the past two years. The main culprit for these low prices is oversupply, caused by increased imports from Canada and Mexico and increased domestic production. H.R. 2646 addresses these problems in two ways:

- H.R. 2646 reduces the burden on producers by lowering CCC interest rates on price support loans and eliminates the marketing assessment on sugar.

- H.R. 2646 also reestablishes the no-net-cost feature of the program by authorizing a Payment-in-Kind Program and marketing allotments.

Honey: To aid honey producers and provide them with a safety net in times of poor market conditions, H.R. 2646 creates a marketing assistance loan program similar to that of other program commodities.

- H.R. 2646 provides producers with price support loans or loan deficiency payments with a loan rate of $0.60 /pound.

Wool and Mohair: The wool and mohair industry has suffered from a depressed fiber market. H.R. 2646 establishes a marketing assistance loan program for wool and mohair similar to that traditionally provided for program commodities.

- H.R. 2646 provides producers with price support loans or loan deficiency payments based on a loan rate of $1.00/pound for graded wool, $0.40/pound for non-graded wool, and $4.20/pound for mohair.

Fruits and Vegetables: H.R. 2646 helps ensure economic stability within the specialty crop sector by retaining the prohibition on planting fruits and vegetables on contract acres, helping with international trade via providing technical assistance to combat trade barriers as well as increasing funding for the Market Access Program, and significantly increasing funding for conservation programs utilized by the fruit and vegetable industry, including targeted spending for water conservation assistance. It also helps provide greater protection to our farmers by streamlining the Animal Plant Health Inspection Service's ability to respond to plant and animal pest and disease emergencies.

- **Protection from Domestic Competition:** H.R. 2646 retains the planting restriction on fruits and vegetables on program crop acres.

- **Emergency Authority to Combat Invasive Pests and Disease:** H.R. 2646 gives the Secretary sole decision authority to combat outbreaks of plant and animal diseases with emergency funds helping to ensure that our food supply remains safe from invasive pests and diseases.

- **Commodity Purchases:** H.R. 2646 provides an additional $200 million per year for surplus commodity purchases providing needed support to the agriculture community while at the same time providing food for those in need.

- **Market Access Program:** H.R. 2646 increases the Market Access Program (MAP) from $90 million to $200 million per year. This program aids in the creation, expansion, and maintenance of foreign markets for U.S. agricultural products and is very important to the fruit and vegetable industry.

- **Technical Assistance Specialty Crop (TASC):** H.R. 2646 creates a Technical Assistance Specialty Crop (TASC) fund ($30 million over 10 years) to address the barriers to exports that U.S. producers of specialty crops face. The purpose of TASC is to provide direct assistance through public and private sector projects to facilitate increased exports of U.S. specialty crops within the global marketplace.

- **Conservation Programs:** H.R. 2646 increases conservation funding by 80 percent overall with significant increases going to EQIP, the Conservation Reserve Program (CRP), the Wetlands Reserve Program (WRP), the Wildlife Habitat Incentives Program (WHIP) and the Farmland Protection Program (FPP). In addition, H.R. 2646 includes increased funding in EQIP to address ground water conservation issues, including cost share for more efficient irrigation systems.

- **Seniors Farmers' Farmers Market Programs:** H.R. 2646 provides $15 million per year through 2011 for the Seniors Farmers' Market Program—a program administered through States that provides vouchers, or coupons to seniors to purchase fresh fruits and vegetables at farmers markets.

CONSERVATION

- **The next farm bill not only brings predictability to the federal farm policy but also greatly expands and improves our soil and water conservation programs. As conservation programs have become popular with farmers, they also have become important to taxpayers. The Committee's action in this legislation responds to the demand for increased protection of our soil, air, water, and wildlife. Rather than creating new programs with no track record of performance, H.R. 2646 builds on the current voluntary incentive programs that have proven to work.**

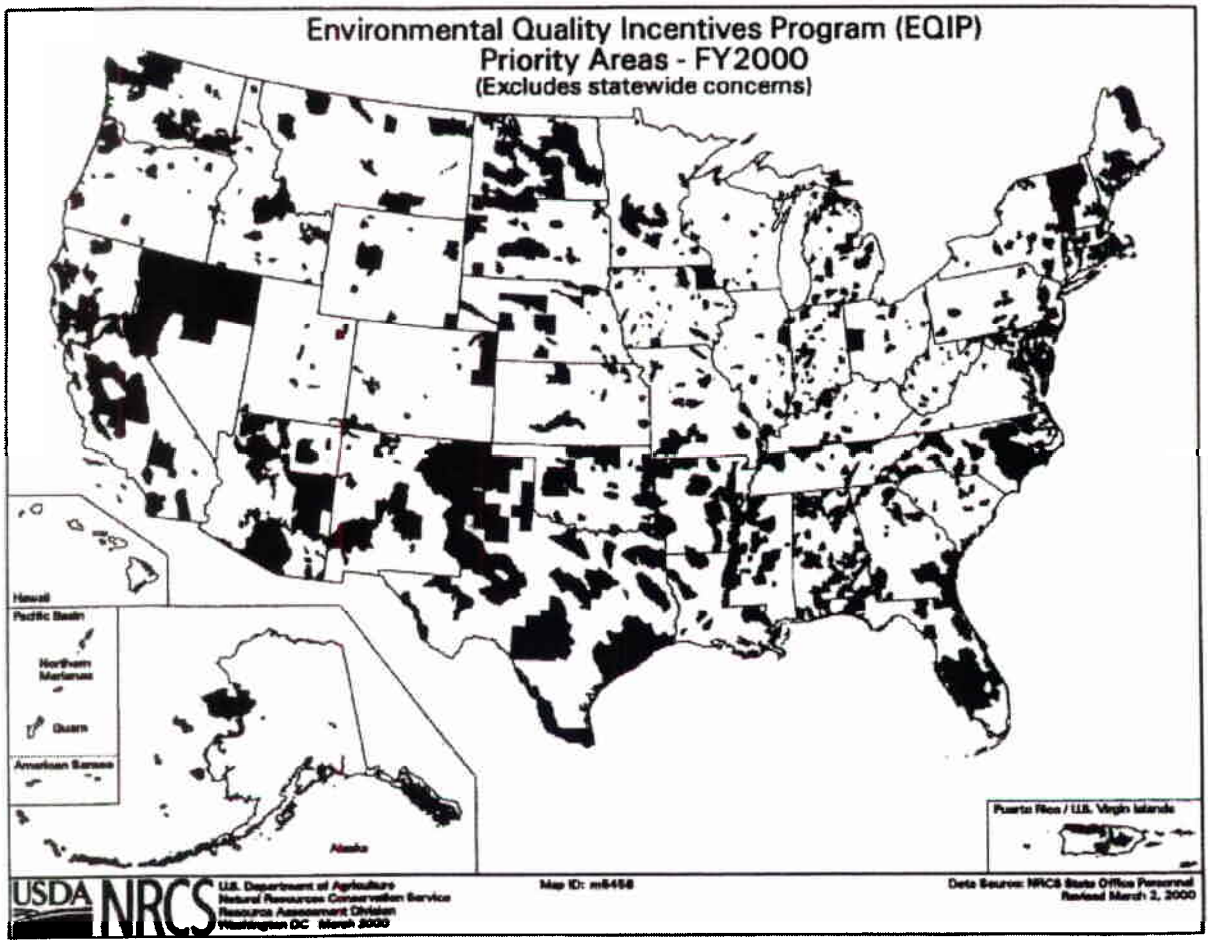
- **Under H.R. 2646, the federal investment in soil and water conservation programs is increased by 80 percent above current program levels. This will provide producers with more options to implement progressive conservation practices on their land, with the backing of increased technical assistance to producers using government or private contractors.**

- **H.R. 2646 makes needed changes to the CRP and EQIP programs to make them more usable and accessible to all producers in all regions of the country. Current conservation programs were enhanced to ensure they meet the needs of producers of livestock, row crops, and fruits and vegetables. Additionally, H.R. 2646 responds to producers who expressed a great desire for a Grasslands Reserve Program to provide producers with incentive payments for managed grazing.**

- **Conservation Reserve Program (CRP)** would be reauthorized through 2011. This program has proven popular with producers wishing to voluntarily set aside environmentally sensitive land. The CRP has saved soil and, thus, has helped improve water quality by keeping sediment out of our streams and waterways. It has been a boon to wildlife, especially upland game birds, by retiring large blocks of land in the Great Plains states.

    - Increases enrollment cap from 36.4 million acres to 39.2 million acres. Permits harvesting of biomass for energy on CRP acreage with a reduction in rental rate.
    - Makes land on which surface or groundwater is conserved eligible for enrollment.
    - Makes land currently enrolled in the CRP are eligible for re-enrollment.
    - Requires the Secretary to balance conservation interests in soil erosion, water quality and wildlife habitat in determining the acceptability of contract offers.

- **Environmental Quality Incentives Program (EQIP)** is reauthorized through 2011. This program has been a popular program among producers and has been tremendously over-subscribed, lacking sufficient funding to meet producer needs. Many producers expressed great interest in expanding this program that will provide them with cost-share and incentive payments to perform multiple land management practices and promote the enhancement of soil, water, air and other resources. Priority areas that have arbitrarily directed funding to producers in one region and excluded producers in another have been eliminated, as EQIP is a national program intended for all producers. Furthermore, this program will assist producers in complying with government regulations.



  - Increases program level from $200 million annually to $1.2 billion annually, an increase of 800%, with livestock producers receiving 50% of annual funding, and crop producers receiving the other 50%.

  - Provides $60.0 million fund is created annually to address ground water conservation issues, including cost share for more efficient irrigation systems.

- Provides explicit authority for the Secretary to implement an incentives payment program for producers of annual and perennial crops, such as tree nuts or fruits.

- Places an emphasis on residue, nutrient, pest, invasive species, and air quality management.

- Addresses the concerns of smaller producers and socially disadvantaged producers, and allows EQIP contracts to be from 1 to 10 years in length with producers receiving payment the same year in which they sign the contract.

- Provides up to $100 million per year (not more than $850 million may be spent in the 10-year period) to provide conservation technical assistance to producers using governmental or private contractors. Last year over 20% of the funding provided to producers for the EQIP program went to administrative and technical assistance costs. Because this dramatically reduces the actual dollars getting to farmers and ranchers, a technical assistance fund is established to meet the needs of producers without cutting into the money actually provided for enrollment in the program. Additionally, administration of EQIP was moved from NRCS to FSA. FSA also will administer the new Grasslands Reserve Program and will continue to administer the CRP. Traditionally, FSA's expertise has been to administer programs while NRCS has traditionally provided technical assistance. NRCS will continue to administer the WRP, WHIP, FPP and will carry out the federal assistance portion of the new Farmland Stewardship Program. This will allow the two agencies to provide the assistance they are most suited to do.

- **Wetlands Reserve Program (WRP)** is reauthorized through 2011 and provides producers with payments for wetland easements as well as with cost-share payments to implement plans to restore an area to the original wetland condition.

  - Increases the enrollment cap from a total of 1,075,000 million acres to provide for an additional 150,000 acres to be enrolled per year.

- **Wildlife Habitat Incentives Program (WHIP)** is reauthorized through 2011. WHIP is the primary mechanism to provide technical assistance and cost-share payments to establish and improve fish and wildlife habitat primarily found on private lands. The Committee has provided WHIP with a much needed funding increase as the previous funds were exhausted after the first few years of the 1996 Farm Bill.

  - Increases program level to $25 million annually.

- **Farmland Protection Program (FPP)** is reauthorized through 2011. This program has been popular as it protects valuable agricultural lands and green space from the threat of urban sprawl.

  - Increases program to $50 million annually.

- Makes agricultural land that contains historic or archeological resources eligible.

- **Grassland Reserve Program** authorizes 2 million acres to be enrolled in 10, 15, and 20 year contracts to encourage common grazing practices done in various regions of the country or for a particular type of livestock operation which may include rotational grazing. The program will also help to enhance wildlife habitat and prevent tracts of land from being subdivided for development.

  - Provides 1 million acres to native grass and 1 million acres devoted to restored grasslands.

- **Small Watershed Dam Restoration** is funded at $150 million. More than 10,000 small flood prevention dams have provided conservation and economic benefits to much of rural America and are in need of rehabilitation. This provision will fund this legislation, which was passed last year.

- **Protection of Private Information**: Provides producers participating in conservation programs with protection against the release of confidential information by the agency.

RURAL DEVELOPMENT AND VALUE-ADDED AGRICULTURE

- **H.R. 2646 makes significant investment in, and improvements to our Rural development programs are important in sustaining rural communities by investing in programs that will aid in the development of rural infrastructure and create jobs in rural areas.**

- **Value Added Market Development Grants** have been expanded to meet producers' interests in start-up farmer-owned value added processing facilities while establishing resource centers to assist producers in value-added endeavors. Knowing the importance of enabling producers to capture more of the value of their commodities, H.R. 2646 significantly increases the Value Added Grant Program.

  - Increases value-added funding from a total of $15 million to $50 million annually.
  - Increases participation in the program by allowing broader standards of eligibility so public bodies and trade association can compete for grants designed to develop value-added products for foreign markets.
  - Encourages grants to be used to assist in the development of agricultural-based renewable energy sources.
  - Allows grants to be made to establish centers to provide producers with technical assistance, marketing, and development assistance for value-added agricultural businesses.

- Increases the current loan limit from $25 million to $100 million for the Business and Industry lending program. Over the years, the needs for debt capital in small cities and rural communities have expanded, and inflation has eroded the purchasing power of the current loan limit of $25 million, thus the need to increase this amount to $100 million.

- **Strategic Planning Initiative** provides assistance to local and regional organizations in order to create and implement a regional rural development plan. 150 million is provided for a pilot program to conducted in 10 states.

- **National Rural Development Partnership** is established and is composed of the Coordinating Committee and state rural development councils to promote interagency coordination among federal departments and agencies that administer policies and programs that impact rural areas.

- **Drinking Water Assistance Grants** - Provides $30 million annually in funding to address the ongoing needs of rural communities that may have difficulty providing safe and adequate quantities of drinking water to their residents.

- **Rural Telecommunications:** Provides $2 billion in program level funding for loan guarantees to promote the development of rural communications infrastructure.

TRADE & EXPORT PROMOTION

- **H.R. 2646 recognizes how critically important trade is to our producers. Forty percent of U.S. commodities go into the export market, and in order to sustain profitability for our producers this market must be expanded.**

- **The entire Farm Security Act is designed to comport with the US's international trade obligations under the WTO, and thereby to promote more free and fair trade for the future.**

- **Title 3 of the Farm Security Act makes substantial investments in programs designed to aid in the creation, expansion, and maintenance of foreign markets for U.S. agricultural products.**

  Market Access Program (MAP) Currently funded at $90 million per year, MAP helps fund generic advertising of U.S. agricultural products in foreign markets. MAP has been a very successful program and has become very popular for its promotion of value-added products, as well as fresh and packaged fruits and vegetables.

  - H.R. 2646 more than doubles **MAP** funding to $200 million per year.

  Foreign Market Development Program (FMDP) The FMDP, or Cooperator's program, has been another effective means of acquainting potential foreign customers with U.S. products and establishing new foreign markets for U.S. farm products. It is also changed to place an increased emphasis on the promotion of value-added products.

  - H.R. 2646 increases **FMDP** funding from $28 million to $35 million per year.

  Food for Progress (FFP) Originally authorized by the Food Security Act of 1985, this food aid program provides commodities on credit terms or on a grant basis to developing countries and emerging democracies. This program helps U.S. producers by removing surpluses from the domestic market.

  - H.R. 2646 increases the transportation cap for **Food for Progress** from $30 million to $35 million each year in order to maximize opportunities to ship more commodities. Administrative funding for the program is also increased from $10 million to $12 million each year.

H.R. 2646 also reauthorizes the **Export Enhancement Program (EEP)** at its current level of $478 million per year, and the **Dairy Export Incentives Program (DEIP)** at the maximum level permitted under our trade agreements. The **GSM Export Credit Guarantee** programs are also reauthorized at current levels. Lastly, the **P.L. 480 Food for Peace** program is also reauthorized.

RESEARCH

- **Research is the key to keeping U.S. producers competitive in the world market. Through technology, producers can realize new production efficiencies, minimize their production risks, and ensure a safer, higher quality, and more affordable final product.**

- **H.R. 2646 recognizes the critical need for research and makes a significant new investment in research programs that will help reap rewards for producers and society for many years to come.**

The Initiative for Future Agriculture and Food Systems (IFAFS): This initiative established in the Agricultural Research, Extension, and Education Reauthorization Act of 1997 was funded at $120 million per year through 2003 as a mandatory program. The initiative is designed to promote on-the-ground solutions for American producers and consumers. Further, it addresses critical issues, such as, plant and animal genomics, food safety, biobased products, and natural resources management.

- H.R. 2646 extends the Initiative beyond its current sunset date of 2003 and increases mandatory funding for the Initiative to $145 million per year beginning Oct. 1, 2003.

H.R. 2646 also reauthorizes current and existing discretionary research programs. The budget shows these programs being funded at $2.19 billion in the current year, rising to $2.76 billion in 2011. Of this amount, approximately 46% is spent on state-level programs through the **Cooperative State Research, Education, and Extension Service (CSREES)**, 43% is spent on in-house research programs conducted by the **Agricultural Research Service (ARS),** 3% is directed to economic research conducted in-house by **Economic Research Service (ERS)**, 5% is spent on statistical services conducted by the **National Agricultural Statistics Service (NASS)**, and 3% is used for buildings and facilities.

FORESTRY

- **H.R. 2646 establishes and acknowledges forestry as a viable mainstay of communities across the United States. As our nation's public lands become more and more difficult to access for their products as well as recreational values, there is a growing dependence on private, non-industrial forest landowners to provide these necessary commodities demanded by a growing population.**

- **In 1996, timber products were the second highest valued agricultural crop in the United States. The Forestry Title strengthens the commitment of the Committee on Agriculture to sustainable forest management practices.**

H.R. 2646 creates a new **Forest Land Enhancement Program (FLEP)** by combining the existing Forestry Incentives Program and Stewardship Incentives Program.

- Funding for the **FLEP** provides $15 million per year for the establishment, management, maintenance, enhancement, and restoration of forests on non - industrial private forest lands in the United States.

H.R. 2646 reauthorizes the **Renewable Resources Extension Act** through 2011 at $30 million annually and creates a **Sustainable Forestry Outreach Initiative** within the RREA to provide education to landowners about sustainable forestry practices. H.R. 2646 also reauthorizes the International Forestry Program through 2011 and reaffirms the importance of the **McIntire-Stennis Cooperative Forestry Act**, which authorizes the Secretary of Agriculture to encourage and assist the states in carrying out programs of forestry research. The Act also establishes a competitive forestry, natural resources and environmental grant program for research into a variety of forest-related concerns, including biodiversity.

H.R. 2646 provides enhanced **community fire protection** by directing the Secretary to coordinate with local communities in implementing rural fire protection and control strategies. This section also creates a **Community and Private Land Fire Assistance Program** which enables the Secretary to undertake a variety of activities aimed at preventing fires on both federal and non-federal lands. Lastly, it gives the Secretary the authority to enter into stewardship contracts to implement the **National Fire Plan** on Federal lands.

ENERGY

- **H.R. 2646 provides tools to help farmers manage the increased expenses that come with higher fuel costs, and also creates authorities and programs to help farmers adopt more energy efficient means of production, and to foster the development of biofuels and energy generating capacity on farms.**

  Emergency Loans for Sharply Increasing Energy Costs: Requires the Secretary to consider income loss resulting from sharply increasing energy costs as an emergency condition for the purpose of emergency loan eligibility. This will provide a mechanism for assisting agricultural producers who endure substantially increased energy costs.

  Loans and Loan Guarantees for Renewable Energy Systems: Recognizing that individual agricultural producers would like to invest in emerging renewable energy technologies for the purpose of power generation for farm, ranch, or small business use, the bill authorizes USDA to guarantee loans for financing the purchase of renewable energy systems, such as wind energy systems and anaerobic digesters

  Biomass Derived from Conservation Reserve Program Lands: Recognizing the potential of using agricultural biomass to produce energy, H.R. 2646 authorizes the Secretary to expand the allowance for harvesting biomass from Conservation Reserve Program lands for use in energy production.

  Wind Turbines on Conservation Reserve Program Lands: Many of the areas identified by the Department of Energy to have the greatest wind energy potential have significant acreage enrolled in the Conservation Reserve Program. H.R. 2646 authorizes the Secretary to permit wind turbines to be placed on Conservation Reserve Program lands for the purpose of generating energy.

  Biomass Research and Development Initiative: H.R. 2646 reauthorizes the Biomass Research and Development Act through 2011, and extends the authorization of pilot projects under which competitive grants are provided to develop biobased products.

  Precision Agriculture: H.R. 2646 requires the Secretary to give priority to improving on farm energy use efficiencies when making grants to eligible entities to conduct research, education, or information dissemination projects for the development and advancement of precision agriculture.

  Hazardous Fuels Reduction Grants: The bill provides the Secretary with the authority to make grants to energy producers who purchase hazardous fuels (unnaturally excessive accumulations of organic material), derived from forests lands, for the purpose of energy production. The grants will be awarded based on level of anticipated benefit to reduce wildfire risk

  The Bioenergy Program: Recognizing the role of the Bioenergy Program (7 CFR 1424) in promoting the industrial consumption of agricultural products for the production of ethanol and biodiesel fuels, H.R. 2646 expands the program by directing the Secretary to include animal fats, agricultural by-products and oils as eligible commodities under the existing Bioenergy Program.

NUTRITION

- **The food stamp program, the Nation's largest food assistance program, seeks to ensure access to an adequate diet and the fruits of a productive agricultural economy to all eligible Americans. Testimony before the Agriculture Committee highlighted a number of changes to simplify the program, give states greater flexibility, remove unnecessary barriers to participation, and increase assistance to working families. In addition, it commits much-needed funds to private community-based assistance programs.**

- **H.R. 2646 maintains the critical link between agriculture and nutrition programs and makes important structural improvements to the food stamp program.**

- **The Emergency Food Assistance Program (TEFAP):** H.R. 2646 increases commodity purchases for the Emergency Food Assistance Program (TEFAP), which provides nutritious domestic food products to needy Americans, while at the same time providing direct support to the agriculture community. An additional $40 million is provided which constitutes a 40 percent increase in funding for this program.

- **Simplification of Food Stamp Application Process:** H.R. 2646 establishes a $10 million-a-year grant program for state agencies to develop and implement simplified application and eligibility determination systems, which gives states more resources to increase flexibility and efficiency of administering the program.

- **Quality Control Program Reform:** H.R. 2646 changes quality control programs to use incentives to encourage states to improve their systems. The food stamp quality control program is reformed and fewer states will be penalized for the errors made in determining eligibility for food stamps. In determining sanctions against States for high error rates, the sanctions are delayed until the third consecutive year in which a State's error rate exceeds the national average error rate by more than 1%. In addition this bill provides for bonus payments to some States for excellent administration of certain food stamp rules.

- **Standard Deduction:** The food stamp standard deduction, currently set at $134 per month, is increased based on household size.

- **Transitional Food Stamps for Families:** States will be allowed to provide 6 months of transitional food stamp benefits for families leaving Temporary Assistance for Needy Families (TANF). This provision simplifies the process for administrators and recipients and provides recipients a 6-month benefit after leaving TANF for work or for other reasons without having to go through food stamp re-certification process until they have established themselves in a job.

- **Community Food Projects:** The program for Community Food Projects is reauthorized and funding for this program is increased to $7.5 million per year through 2011. This program is a community-based program that is designed to meet the food needs of low-income families, to increase the self-reliance of communities in providing for their own food needs, and to promote comprehensive responses to local food, farm and nutrition issues.

- **Hunger Fellows Program:** Establishes the Hunger Fellows Program and defines the purpose as: encouraging future leaders to pursue careers in humanitarian service, recognizing the needs of the hungry; providing assistance and compassion for those in need; increasing awareness of the importance of public service; and providing training and development opportunities for these leaders. Authorizes the creation of fellowships to carry out the above purposes. Creates a board of trustees to supervise and direct the Program.

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Congressional Research Service
CRS Short Report for Congress

RS20848: Farm Commodity Programs: A Short Primer

March 19, 2001

Geoffrey S. Becker
Specialist in Agricultural Policy
Resources, Industry, and Science Division

Summary

The U.S. Department of Agriculture (USDA) is required, primarily by the Federal Agriculture Improvement and Reform ((FAIR) Act of 1996, to provide income support, price support, and/or supply management for approximately 20 specified agricultural commodities. Comprehensive farm legislation in 1996 was intended to usher in a new system of price and income supports for many of these commodities by accelerating the shift toward a more "market-oriented" agricultural policy and by gradually reducing financial support. However, unanticipated declines in export markets and in farm prices led Congress to enact a series of emergency measures from 1998 through 2000 that provided additional *ad hoc* support for producers, greatly increasing the cost of commodity assistance. Continued market uncertainties, high federal spending, and the expiration, in 2002, of many provisions of the 1996 act, all indicate that these programs will be the subject of intense debate in the 107th Congress.

Overview

USDA farm support programs represent the heart of U.S. farm policy, by virtue of their longevity they have existed since the early 1930s and their cost. The programs remain the most expensive and visible of all Federal farm activities. Net outlays for the Commodity Credit Corporation (CCC), USDA's financing mechanism for the programs, are expected to average more than $15 billion annually between FY1996 and FY2002, with FY2000 outlays at a historical record of $32.3 billion.(1)

Standing authority for USDA-CCC programs is provided mainly by three permanent laws: the Agricultural Adjustment Act of 1938 (P.L. 75-430), the Agricultural Act of 1949 (P.L. 81-439), and the CCC Charter Act of 1948 (P.L. 80-806). However, Congress frequently alters or suspends many provisions of these laws through omnibus, multi-year farm acts, and various budget measures. The most recent omnibus law, intended to guide program operations through 2002, is the 1996 Federal Agriculture Improvement and Reform Act (P.L. 104-127). "Emergency" farm funding laws since then, notably sections of P.L. 105-277, P.L. 106-78, and P.L. 106-224, have increased support (generally temporarily) for most major commodities.

Current law *requires* the Secretary of Agriculture to offer support for wheat, feed grains (corn, sorghum, barley, oats), cotton (upland and extra-long stapleELS), rice, soybeans and other oilseeds (sunflower seed, canola, rapeseed, safflower, flaxseed, mustard seed), milk (dairy), peanuts, sugar, and tobacco.

Most of these, plus several others (primarily wool, mohair, honey, cranberries, and apples), also have been eligible for additional *ad hoc* support under the series of emergency funding packages that Congress enacted in 1998-2000, in response to export market losses and low farm prices.(2)

The commodities eligible for mandatory support under standing legislation accounted for approximately $68 billion, or 36%, of all cash receipts from farm marketings in 1999. Other commodities that normally receive no direct support include meats, hay, poultry, fruits, nuts, and vegetables, which together generated farm receipts estimated at $121 billion in 1999. But even producers of these items can be affected by farm policy decisions, either because such producers also raise some price-supported commodities, or because Government intervention in one farm sector can influence production and prices in another sector.

Statutorily Required Support

Policymakers have devised a variety of program methods for the CCC to assist producers; generally, each was designed to achieve one of three broad objectives:

- To ***supplement farmer incomes***. Methods include *production flexibility contract payments* for grains and cotton, and *marketing loans* and *loan deficiency payments* for grains, cotton, and oilseeds (recent legislation has provided *ad hoc* direct payments and/or loan benefits for wool, mohair, oilseeds, tobacco, honey, milk, peanuts, apples, and cranberries);
- To ***manage supplies***. *Marketing quotas/acreage allotments*, for tobacco, and *poundage/marketing quotas*, for peanuts are used to restrict output;
- To ***support farm prices***. Methods include *nonrecourse marketing loans* for grains, cotton, sugar, peanuts, tobacco, and oilseeds, and *commodity purchases* for milk (recent legislation has provided *ad hoc* loans for mohair and honey and direct purchases of various fruits and vegetables).

The supports employed, levels of aid, and impacts on taxpayers, consumers, and other producers, differ among the commodities. Some commodities are supported by only one method; others receive their support through a combination of program tools.

Wheat, Feed Grains, Upland Cotton, and Rice. These programs were overhauled significantly in 1996. No longer would payments be tied to market prices ("target price deficiency payments"), to the planting of a specific crop, or to annual cropland diversion requirements. Instead, most eligible producers (those with acreage enrolled in the old grains and cotton annual programs) signed *production flexibility contracts* entitling them to fixed, but generally declining, annual payments for 7 years. These payments, totaling nearly $36 billion nationally through 2002, are based on each participant's established acreage and yield (per-acre output) under the old programs. However, participants can plant almost any combination of crops on contract acreage. The only other restrictions are that contract land must be used for agricultural purposes, generally fruits and vegetables cannot be produced on such land, and conservation rules must be followed.

Those with the contracts also are eligible for *nonrecourse marketing assistance loans*, and *loan deficiency payments*. To qualify, a farmer pledges the stored crop as collateral. Loan rates generally are set at 85% of a moving average of past market prices; there are caps and (for some) floors on these rates. For 2000 crops, USDA announced national average loan rates of $2.58 per bushel (bu.) for wheat, $1.89 per bu. for corn, 51.92 cents per pound (lb.) for upland cotton, and $6.50 per 100 pounds (cwt.) for rice.

Nonrecourse loans must be repaid with interest within 9 months (10 months for cotton) or else the producer forfeits the pledged commodity to the government, which has "no recourse" other than to accept it in lieu of money. However, two provisions are intended to make forfeitures and buildup of CCC-owned surpluses less frequent than under past policy. First, the "marketing loan" provision enables the farmer to repay the loan at a USDA-calculated rate that is intended to approximate market prices. If that repayment rate is below the original USDA loan rate, the farmer captures the difference as a subsidy (marketing loan gain). Loan deficiency payments (equal to marketing loan gains) also are made to eligible producers choosing *not* to take out a crop loan. Second, the 1996 law instructs USDA to set loan rates at levels that will minimize forfeitures.

Recent emergency farm legislation (in P.L. 105-277, P.L. 106-78, and P.L. 106-224) effectively increased payments to contract holders, by approximately 50% in 1998, 100% in 1999, and 100% in 2000, respectively. These extra *market loss assistance payments* were exempted from regular annual payment limits (see page 5). P.L. 106-224 also extended loan deficiency payment eligibility for the 2000 crop year only to anyone who grew a contract commodity, not just contract holders. (See CRS Report RS20271 (pdf), *Grains, Cotton, and Oilseeds: Federal Commodity Support.*)

Soybeans, Other Oilseeds, and ELS Cotton. Producers of these commodities are not eligible for the 7-year contracts, but can receive *nonrecourse marketing assistance loans* and *loan deficiency payments*. USDA set average 2000 rates at $5.26 per bu. for soybeans, $9.30 per cwt. for most other oilseeds, and 79.65 cents per lb. for ELS cotton. The emergency farm bills also provided supplemental *direct payments* to soybean and other oilseeds producers totaling $475 million for 1999 and $500 million for 2000 or approximately 14 cents per bu. for soybeans and varying rates for other oilseeds.

Tobacco and Peanuts. These commodities are supported through a combination of *nonrecourse loans* and *supply controls*. The tobacco program, intended to be operated at no net government cost, employs the most aggressive supply control: all sales of major tobacco types are strictly limited to farms with *marketing quotas*. Under the peanut program, *marketing quotas* (formally called *poundage quotas*) limit the quantity of peanuts that can be marketed for domestic edible use; such peanuts are eligible for a higher loan rate than above-quota ("additional") peanuts, which must be crushed for oil or feed, or exported. Each year, a nationally-set quota is established and then allocated among eligible producers. The loan rate for quota peanuts is set by law at $610 per ton; by contrast, the 2000 rate for above-quota peanuts is $132 per ton. Because the supply control features of the peanut and tobacco programs keep market prices higher than they would otherwise be, consumers rather than taxpayers generally bear most program costs. However, two of the emergency farm measures (in P.L. 106-78 and P.L. 106-224) have provided special *direct payments* totaling, over 2 years, about $89 million for peanuts and $668 million for tobacco. (See CRS Issue Brief IB95118, *Peanuts: Policy Issues*; and CRS Report 95-129 (pdf), *Tobacco Price Support: An Overview of the Program.*)

Sugar. Support no longer includes the supply control mechanism of the pre-1996 program but still is supposed to operate, in effect, at no net cost to the Government. Until 2000, price support was provided through a nonrecourse/recourse loan mechanism, combined with restrictions on sugar imports. Only *recourse loans* (which must be repaid in cash, with interest) were available to sugar processors whenever annual imports were below 1.5 million tons. Whenever imports exceeded 1.5 million tons, *nonrecourse loans* would be triggered. However, the FY2001 USDA appropriation (P.L. 106-387) now requires that all sugar loans be nonrecourse, regardless of import levels. Loan rates are 18 cents per lb. for raw cane sugar and 22.9 cents per lb. for refined beet sugar. (See CRS Issue Brief IB95117, *Sugar Policy Issues.*)

Milk. Milk (dairy) price support is provided through surplus *commodity purchases* from processors. The CCC buys all bulk quantities of cheese, butter, and nonfat dry milk that dairy processors are unable to sell on the private market for at least the prices offered by the CCC. Per-pound prices are set so that processors will in turn pay farmers a price for their milk that reflects at least the federally mandated support price, currently $9.90 per cwt. The purchase program was to be replaced after calendar 1999 by a *recourse loan* for processors, but USDA appropriation measures have extended the old program through calendar 2001. In addition, two of the emergency farm aid laws authorized *direct payments* providing a total of nearly $600 million to dairy farmers. (See CRS Issue Brief IB97011, *Dairy Policy Issues*.)

Other Commodities. Several crops and animal products that either are not typically supported through the CCC, or had lost their "mandatory" support after the 1996 farm law, were made temporarily eligible for support under one or more of the emergency farm laws. The 2000 **honey** crop is eligible for *nonrecourse marketing assistance loans* (set at 65 cents per lb.) as well as *loan deficiency payments*. **Wool** and **mohair** are eligible for *direct payments* of 20 cents per lb. for 2000 marketings; the rates for 1999 marketings were 20 cents for wool and 40 cents for mohair. (Congress earlier had terminated support for honey, wool, and mohair.) In addition, mohair produced before or during FY2000 was eligible for *recourse loans* set at $2 per lb. **Apple** and **cranberry** producers are to receive one-time *direct payments* totaling $100 million and $20 million, respectively, to cover past crop market losses. And, USDA was directed by P.L. 106-224 to *purchase* $200 million in **various fruits and vegetables** experiencing low 1998 and 1999 crop year prices.

USDA Discretionary Support

In addition to the explicitly-required forms of support described above, farm price support legislation has long *permitted* the Secretary to offer, at his or her discretion, support for virtually any farm commodity. Recent examples of such support announced by the Secretary include *direct payments* of up to $10 per head for **hogs** in 1999, and of up to $8 per head for **lambs** (under a 3-year lamb meat adjustment assistance program). In 2000, the Secretary decided to make *direct purchases* of surplus **sugar**, and also to transfer title to 277,349 short tons of CCC-owned sugar to farmers who agreed to destroy nearly 102,000 acres of planted sugar beets. Funds for these various activities might come from a number of sources, including CCC and Section 32.[3]

Payment and Loan Limitations

Most farm subsidies have been tied to commodity units; therefore, higher output means higher potential benefits, up to certain limits. The law sets an annual ceiling for production flexibility contract payments at $40,000 for each person, who must be actively engaged in farming. The law sets a separate annual ceiling for gains from marketing loans, at $75,000 per person; thus a person potentially could receive up to $115,000 per farm. However, because an individual can receive *half*-payments on two additional farms, the effective annual cap on total combined payments actually has been $230,000 per person. Because limits apply to individuals rather than farm units, a single farm with multiple owners/operators might receive much more than the above amounts. Also, there is no per-person monetary limit on outstanding CCC loans or on surplus purchases.

As noted, the special market loss payments provided by the emergency farm laws are not subject to any payment limitations. Also, the loan payment limitation threatened to undermine the use of marketing loans for the 1999 and 2000 crops by encouraging farmers to default on their nonrecourse loans. Consequently, the limit on loan gains was doubled to $150,000 per person for these years by P.L. 106-78 and P.L. 106-387.

Policy Discussion

When the commodity programs were first authorized in the early 1930s, most of the Nation's 6 million farms were diversified and small (by today's standards). There was a perceived need to address the severe economic problems then faced by this large segment of society, where about 25% of the U.S. population then resided. Moreover, it was argued, stabilizing the agricultural sector through guaranteed minimum farm prices, income payments to producers, and/or various supply management techniques also helped to ensure an abundant supply of food and fiber at reasonable prices in the future.

Since then, farming has undergone a significant transformation. Most commercial agriculture is now confined to fewer, larger, and more specialized operations. In 1997, about 157,000 large commercial operations, with annual agricultural sales averaging about $900,000, accounted for 8% of all U.S. farms but 72% of all farm sales. Most of the nation's 2 million farms are primarily part-time, where operators rely on off-farm earnings for most of their income. Farm residents now account for less than 2% of the general U.S. population.

Also, the economic health of the farm sector has become increasingly tied to overseas markets, where there are not only more sales opportunities for U.S. farmers but also stiff competition from foreign producers who themselves may be protected by subsidies or import barriers. Critics have long argued that U.S. commodity policies are outdated and may even be detrimental to the needs of modern agriculture, and of society in general. While the programs have retained features dating to the 1930s, they also have evolved in response both to the changes occurring in agriculture and the economy, and to fiscal and political pressures. A major point of contention has been whether they have evolved quickly enough, or in the most appropriate ways.

Congress and the Administration have sought for many decades to steer price and income support programs onto a more "market-oriented" course, so that producers would look to the private market rather than the Government for economic rewards from production agriculture. A succession of farm bills, particularly since the 1970s, moved farm policy in this direction, mainly through incremental changes in existing programs. The 1996 farm law, written at a time of high farm prices and expanding exports, was aimed at accelerating the programs' market orientation.

CCC net outlays averaged $15 billion yearly during the 1980s, peaking at $26 billion in fiscal year 1986. By the 1990s, improved market conditions, plus program reductions mandated by various farm and omnibus budget laws, had lowered CCC outlays to an average of nearly $10 billion yearly between fiscal years 1990 and 1995. The 1996 farm law anticipated even lower spending, at an average of less than $6 billion yearly.

However, unanticipated declines in export markets and in farm prices not only drove up the cost of the programs authorized by the 1996 farm law (primarily marketing loans and loan deficiency payments), but also led Congress to enact, between 1998 and 2000, more aid. Approximately $25 billion, in emergency farm and related assistance, has been approved, of which $17 billion was in response to falling commodity prices (the rest was natural disaster aid). For calendar 2000, direct farm payments reached a total of $24 billion a figure representing over one-half of net farm income for the year.

Such record-high subsidies have helped the farm economy as a whole remain in relatively strong financial condition. However, most policymakers and farm groups would prefer a more reliable method for supporting farm income than ad hoc laws; some and are pushing for policy changes that will automatically release funding when farm income is not sufficient to maintain viability. Allocating resources for such changes, and resolving ideological differences over the best method of assisting farmers, are likely to be difficult. These issues are at the heart of the debate over current programs, most of which expire in 2002.

Footnotes

1. (back)The Department's Farm Service Agency (FSA) delivers commodity program benefits through a network of local ("county") offices overseen by committees of elected farmers.

2. (back) Most of this *ad hoc* support has been for one or two crop or marketing years only, and did not permanently alter standing legislation (e.g., the 1996 farm law). These same emergency measures also provided separate funding for disaster-related losses. See CRS Report RL30794, *Farm Economic Relief and Policy Issues in the 106th Congress: A Retrospective*.

3. (back)Section 32 is a permanent appropriation that since 1935 has earmarked the equivalent of 30% of annual customs receipts to support the farm sector through a variety of activities. Today, most of this appropriation (now about $5.7 billion per year) is simply transferred directly to USDA's child nutrition account to fund school feeding and other programs. However, Section 32 also provides USDA with a source of discretionary funds of up to $300 million annually, which it uses for "emergency removals" of surplus agricultural commodities, disaster relief, or other unanticipated needs. For an explanation of how Section 32 differs from the programs discussed here, see: CRS Report RS20235 (pdf), *Farm and Food Support Under USDA's Section 32 Program*.

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Agriculture.house.gov
House Committee on Agriculture

March 15, 2001

The Honorable Jim Nussle, Chairman
House Committee on Budget
309 Cannon House Office Building
Washington, DC 20515

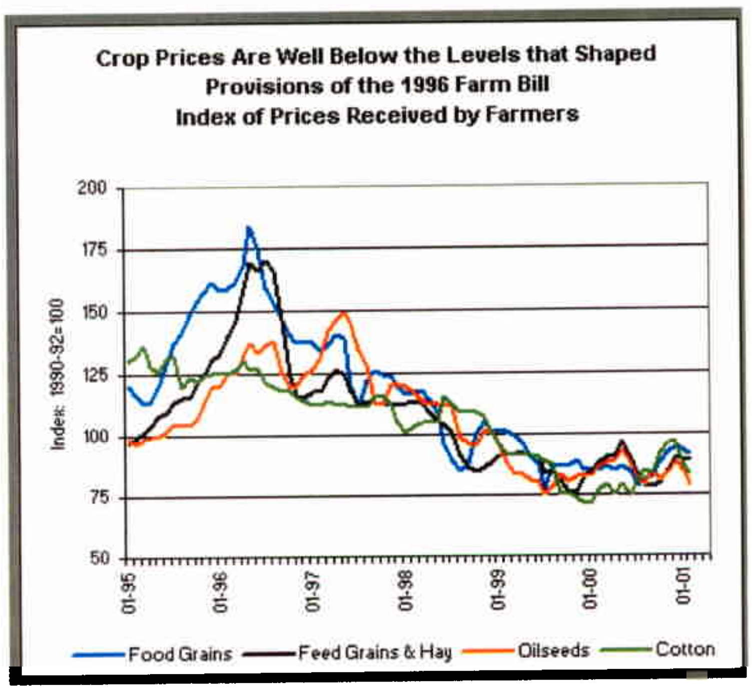
Dear Mr. Chairman:

Pursuant to section 301(d) of the Congressional Budget Act of 1974 and House Rule X, clause 4(f), we are including below the recommendations of the Committee on Agriculture with respec to agriculture programs within the Committee's jurisdiction.

With the challenges facing U.S. agriculture today, the Committee on Agriculture is dedicated to ensuring that the Federal government continues to promote policy that will keep American agriculture and rural communities strong.

The Crisis in the U.S. Agriculture Sector Continues

The current farm recession, entering its fourth year, ranks among the deepest in our nation's history, along with the Great Depression, the post-World War I and II recessions, and the 1980's farm financial crisis.



- Crop year 2000 prices were a 27-year low for soybeans, a 25-year low for cotton, a 14-year low for wheat and corn; and an 8-year low for rice.
- Net cash income over the last three years fell in real dollars to its lowest point since the Great Depression.
- For 2001, most projections show very little improvement in commodity prices, with production expenses rising to record levels.

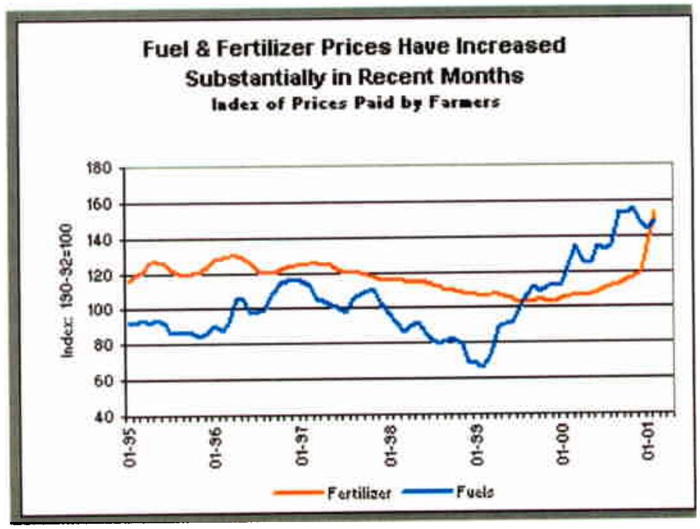
When the 1996 Farm Bill passed -- with its fixed but declining contract payments -- no one on either side of the aisle was predicting the current malaise of high costs and low commodity prices. In fact, today's prices for wheat, corn, and soybeans are 31 percent lower than USDA's projections at the time the farm bill passed. There are many factors that have contributed to the dismal situation, all of which are beyond U.S. producers' control. Examples include:

Energy Costs:
Between 1999 and 2000, U.S. producers incurred an additional $2.4 billion in fuel costs – a 40 percent increase.

For the 2001 crop year, energy costs are expected to contribute to an additional $1.5 billion increase in production expenses.

Diesel prices for 2001 are expected to average $1.50 a gallon - up 50 percent from last year.

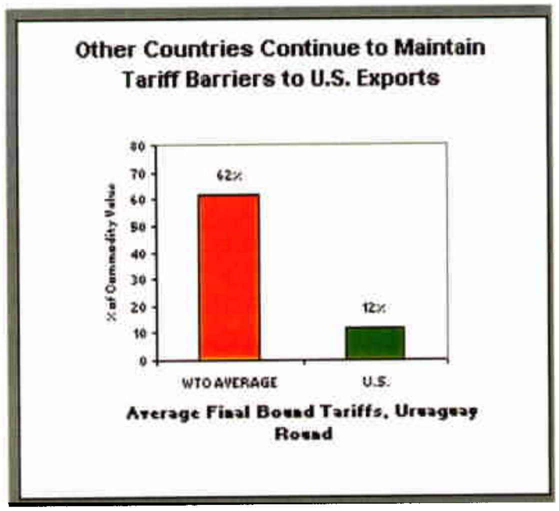
In addition, last year's rising natural gas prices have fueled sharply increased costs for irrigation and nitrogen fertilizer as illustrated in the graph to the right.



Trade Factors and the Strong Dollar:
Repercussions are still being felt from the Asian economic crisis that began three years ago.
In addition, three years of worldwide good weather have created commodity surpluses all around the globe.

Compounding this situation for American producers is the strength of the U.S. dollar, which has contributed to a substantial increase in the relative cost of U.S. commodities compared to other countries. USDA estimates that the value of the dollar is up 25 percent relative to our customers' currencies and up 40 percent relative to our competitors' currencies.

Trade Barriers:
U.S. producers continue to compete on an uneven international playing field. Despite some progress in lowering trade barriers through the World Trade Organization, the fact remains that the average tariff on U.S. farm products in other countries is 62 percent, while the average U.S. tariff on goods coming into the U.S. is approximately 12 percent.

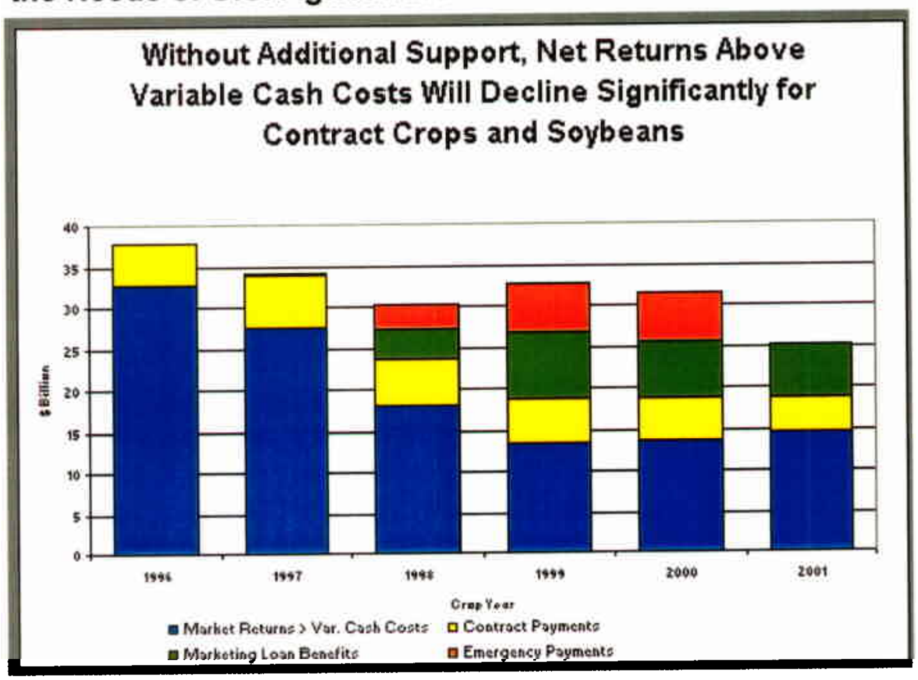


In addition to the disadvantages U.S. producers face because of high tariffs around the world, they also face the daunting challenge of competing with high foreign subsidies.

For example, the average 1997-99 EU subsidy level was $342 per acre, while the average U.S. subsidy level was only $43.

Congress has Responded to the Needs of U.S. Agriculture

As agriculture enters a fourth year of crisis, we must consider the best way to provide the assistance needed to sustain a vital farm economy for the future. As the chart to the right shows, ad hoc emergency assistance, provided in each of the last three years, has been a critical source of income for producers of contract crops and soybeans.



Indeed, had Congress not provided nearly $25 billion in supplemental assistance to farmers in last three years, tens of thousands of farmers would have been forced out of business, having devastating impact on all of rural America. Without additional support for 2001, total net return these producers are expected to decline significantly from 2000 levels. Therefore, we believe t continued anemic commodity prices and higher costs of production justify additional economic assistance for U.S. producers for the 2001 crop year.

However, while providing the needed additional support through a fourth year of emergency payments is better than not providing anything at all, we feel that there is a better way. It is cle that long-term structural changes to Federal agricultural policy are needed.

Permanent Additional Resources for Agriculture Are Required

We recommend that, rather than providing additional assistance on an emergency, ad hoc bas the budget allocation for agriculture be permanently increased. Our rationale for this recommendation is twofold:

- First, ad hoc assistance is by its very nature unpredictable -- producers and lenders alike justifiably nervous about including any dollar figure for ad hoc assistance in cash flow calculations. The inability to count on this assistance affects not only producers and lend but ripples throughout the rest of the agricultural sector. When farmers are not sure abou income, bankers are not sure about lending -- and that uncertainty ultimately affects retai input suppliers, equipment manufacturers, and everyone else in rural America.
- Second, increasing the allocation for agriculture is a more predictable and disciplined approach to budgeting. The past three years have shown that Congress has the will to provide necessary assistance when existing programs are inadequate, but emergency waivers of the budget act have led to spending greater than it might otherwise have been Indeed, we believe the more disciplined approach of providing monies up-front in the bud would result in savings over the long run.

The Agriculture Committee Will Develop Appropriate Legislation This Year

The Committee has begun holding hearings this year in order to receive testimony from produc and others on very specific proposals to strengthen the farm safety net. This testimony will not be useful as the Committee works to bolster current commodity laws, but also serve as a good foundation for comprehensively addressing the needs of rural America in the next farm bill.

We look forward to working with you not only to ensure that we provide adequate Federal reso to support American agriculture, but also to develop sound legislative policy that will enable American farmers and ranchers to survive the challenging situation that they face today.

Larry Combest
Chairman

Charles W. Stenholm
Ranking Minority Member